

RD AN No. 4398 (4274-D)  
October 30, 2008

TO: State Directors, Rural Development  
ATTN: Business Programs Directors  
SUBJECT: Intermediary Relending Program  
Further Clarification of Priority Scoring

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide further clarification on priority scoring for points applied for leveraged funds.

COMPARISON WITH PREVIOUS AN:

This AN updates and replaces RD AN No. 4229 (4274-D) dated December 21, 2006, with subject "Intermediary Relending Program Clarification on Priority Scoring."

IMPLEMENTATION AND RESPONSIBILITIES:

The RD AN 4229 was issued on December 21, 2006, in response to a Management Control Review (MCR) that called for clarification of priority scoring. Specifically, the MCR indicated that, "there is a great disparity across the country regarding application of priority scoring. Priority points are being applied inconsistently for leveraged funds. There are several areas in the score sheet to account for funds from the intermediary and other sources and there seems to be much confusion among field office employees as to the proper application of priority points."

As a result, AN 4229 was issued to clarify the appropriate use of priority points regarding leveraged funds. The AN was written in accordance with the regulatory revision of August 19, 2005. To further simplify the regulatory language elements, we will address each criterion separately below:

EXPIRATION DATE:  
October 31, 2009

FILING INSTRUCTIONS:  
Preceding RD Instructions 4274-D

1. Section 4274.344(c)(1)(i) discusses awarding points based on the intermediary's ability to obtain non-Federal funds from external sources for use in making loans to ultimate recipients.

When considering points under this criterion, the Agency is evaluating the intermediary's ability to obtain bank participation with local lenders or obtain grants to fund ultimate recipient projects. Examples of acceptable outside funding sources would include funds from a bank loan, funds from an ultimate recipient's equity contribution (in the form of cash or loan or grant funds only), or funds from a state agency.

2. Section 4274.344(c)(1)(ii) discusses awarding points based on the level of participation from an intermediary's internal source(s) for use in making loans to ultimate recipients.

When considering points under this criterion, the Agency is evaluating the intermediary's ability to commit its own funds to pay part of the ultimate recipient project costs. Examples of acceptable intermediary funds would include program income and fees received from the administration of other Revolving Loan Fund (RLF) programs. Please note that eligible RLF funds from a Federal source include program income, ie. interest and fees, earned as a result of the RLF – not the actual revolved funds. In cases where the RLF loan has been repaid by the intermediary borrower and the funds have totally revolved – these are an eligible source of leveraging.

3. Section 4274.344(c)(3) discusses awarding points based on the intermediary's willingness to restrict its own assets to the RLF as a percentage of the Agency Intermediary Relending Program (IRP) loan.

When considering points under this criterion, the Agency is evaluating the intermediary's ability to commit cash to the RLF and manage its IRP RLF under the following restrictions:

- (i) the intermediary's contribution will be part of the RLF and will remain part of the RLF for the life of the intermediary's IRP loan from the Agency;
- (ii) the intermediary's contribution will be commingled with Agency IRP loan funds so that it eventually loses any separate identity and is used along with the Rural Business IRP loan funds for loans to ultimate recipients;
- (iii) ultimate recipient loans funded partly from the intermediary contribution and partly from the Agency loan funds will be evidenced by one promissory note for the total loan amount;
- (iv) the promissory note receivable will be an asset of the RLF;
- (v) all payments on the promissory note made by the ultimate recipient will be deposited in bank accounts designated as part of the RLF account; and

- (vi) the entire RLF, including any resulting assets, will be pledged as collateral to the Agency, in accordance with RD Instruction 4274-D, section 4274.326(a)(2).

During application processing, you should ensure that an intermediary agreeing to make an intermediary contribution understands the commitment required. Additional guidance regarding the requirements for establishing and maintaining the RLF may be found in RD Instruction 4274-D, section 4274.332(b).

After a loan is closed with an intermediary that received priority points for its intermediary contribution, you should monitor the intermediary to ensure that the required funds are deposited into the RLF in accordance with RD Instruction 4274-D, section 4274.338(5)(i). All collections from ultimate recipients must remain part of the IRP RLF account.

Please consider the following scenarios when scoring IRP applications:

**Scenario 1 (Complex):**

Leveraging sources for anticipated ultimate recipient projects –

50 percent	Bank loan
10 percent	Ultimate recipient equity contribution
20 percent	Agency IRP loan, no more than 75 percent of project cost (the IRP fund is 80 percent IRP loan and 20 percent intermediary contribution)
15 percent	*Another RLF run by the intermediary (capitalized by a Federal source)
<u>5</u> percent	Another RLF run by the intermediary (capitalized by a non-Federal source)
100 percent	Project cost

**Answer:**

4274.344(c)(1)(i) – Outside source(s)

50 percent	Bank loan
<u>10</u> percent	Ultimate recipient equity contribution
60 percent	50 percent or more of total project costs – <b>15 points</b>

4274.344(c)(1)(ii) – Intermediary fund(s)

15 percent	*Another RLF run by the intermediary (Federal source)
<u>5</u> percent	Another RLF run by the intermediary (non-Federal source)
20 percent	At least 10 percent but less than 25 percent of the total project costs – <b>5 points</b>

## 4274.344(3) – Intermediary Contribution

80 percent	Agency IRP loan
<u>20</u> percent	Intermediary contribution
25 percent	Percentage of Agency IRP loan; 25 percent or more – <b>50 points</b>

*Note: Scenario 1 yields a total of 70 points.*

*\* Federal financial assistance received by the intermediary for the purpose(s) of funding RLFs may be considered as leveraging under Intermediary funds. Nothing in the regulation prohibits an intermediary from using these funds as an internal source.*

**Scenario 2 (Simple):**

Leveraging sources for anticipated ultimate recipient projects –

40 percent	Bank Loan
10 percent	Ultimate recipient equity contribution
30 percent	Another RLF run by the intermediary (non-Federal source)
<u>20</u> percent	Agency IRP loan, no more than 75 percent of project cost (the IRP fund is 80 percent IRP loan and 20 percent intermediary contribution)
100 percent	Total project cost

**Answer:**

## 4274.344(c)(1)(i) – Outside source(s)

40 percent	Bank loan
<u>10</u> percent	Ultimate recipient equity contribution
50 percent	50 percent or more of total project costs – <b>15 points</b>

## 4274.344(c)(2)(ii) – Intermediary fund(s)

0 percent	Intermediary makes no contribution from internal sources to ultimate recipient project costs
<u>30</u> percent	Another RLF run by the intermediary (non-Federal source)
30 percent	At least 25 percent but less than 50 percent of total project costs – <b>10 points</b>

4274.344(3) – Intermediary Contribution

80 percent	Agency IRP loan
<u>20</u> percent	Intermediary contribution
25 percent	Percentage of Agency IRP loan; 25 percent or more – <b>50 points</b>

*Note: Scenario 2 yields a total of 75 points.*

All points awarded for leveraging shall be based on documented successful history or written evidence that the funds are available.

If you have questions, please contact the Specialty Lenders Division, Processing Branch,  
At (202) 720-1400.

*(Signed by Ben Anderson)*

BEN ANDERSON  
Administrator  
Business and Cooperative Programs